



DIRECTORATE OF
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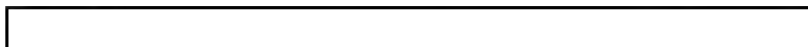
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USSR - Middle East: The Soviets appear to be laying the groundwork for focusing blame on the US and Israel in the event the Middle East cease-fire breaks down.

After soft-pedaling criticism of US support for Israel after the cease-fire began on 7 August, Pravda on Wednesday accused Washington of encouraging Israeli intransigence by continuing to supply weapons during the cease-fire and quoted US officials on the US' determination to maintain a military balance favorable to Israel. At the same time, Moscow has maintained its criticism against Israeli "stalling" and has charged Tel Aviv with using threats and saber-rattling to improve its position.

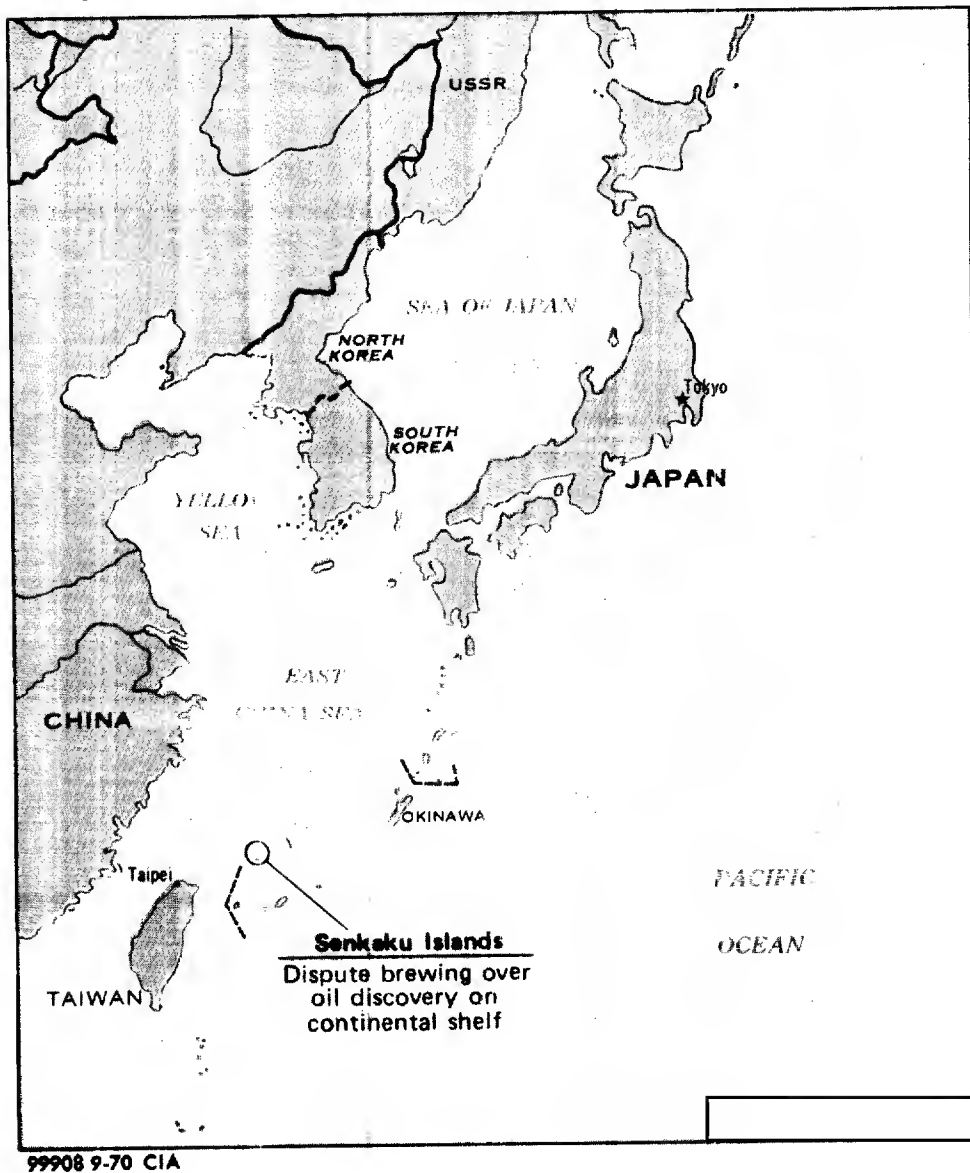
Despite continued urging by Soviet commentators that the negotiations in New York move forward, this slight shift in emphasis suggests that in the light of recent events, Moscow sees prospects dimming for both the cease-fire and negotiations.

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Tokyo and Taipei Dispute Oil Rights



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Japan - Nationalist China: The dispute between Tokyo and Taipei over rights to oil discovered off the Senkaku Islands is heating up.

Japanese Foreign Minister Aichi earlier this week asked the US to reaffirm Japan's claim to the area, which the US will administer as part of the Ryukyu Islands until their reversion to Japan in 1972. Last July Tokyo lodged an official protest with Taipei over Nationalist claims that the islands are part of the Chinese continental shelf.

The Japanese announced discovery of the oil deposit, which they believe may be one of the ten largest in the world, in August 1969. Soon afterwards Taiwan granted a major US oil company permission to prospect in the area, despite Japanese objections. US authorities in the Ryukyus have also been under pressure from US oil companies for exploratory rights in the area. So far no development of the oil resources has taken place.

This sensitivity over the Nationalist Chinese claims reflects Japan's strong desire to reduce its extreme dependence on foreign sources of petroleum. Tokyo may shortly propose that the dispute with Taipei be solved through diplomatic channels. Taipei, however, is reacting strongly to the Japanese claim; the Nationalists recently ratified the Continental Shelf Convention of 1958 in order to strengthen their legal position. The dispute could be complicated later by Communist China [redacted]

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[redacted] Peking's position in the controversy has not yet been made clear. [redacted]

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(Map)

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West Germany - USSR: The two countries are following up their recent treaty signature with technical, economic, and political contacts.

West German Minister of Economics Schiller is planning a short visit to Moscow, to begin on 24 September. He will probably discuss sympathetically the projected agreement to build a truck plant for the Soviets at Kama, although the actual negotiations are principally between Daimler-Benz and the Soviets. The Soviet Minister of Automobile Industry, A.M. Tarasov, intends in the near future to lead a delegation to visit the Daimler-Benz plant near Stuttgart.

Following a scientific-technical agreement concluded at the time of the signature of the West German - Soviet treaty, Bonn's Minister of Science Leussink will visit Soviet scientific and nuclear energy facilities from 17 to 29 September. A top Soviet nuclear energy official is to return this visit.

Yuri Zhukov, an authoritative Soviet commentator, will lecture in Bonn and Munich during a ten-day trip in late September. Zhukov is a member of the Supreme Soviet and will doubtless try to use his position to facilitate wide contacts with West German parliamentarians.

Expectations of a possible commercial agreement between Bonn and Moscow are spurring other European Community countries to seek bilateral agreements with the Soviets. Belgian officials state that Benelux will send a delegation to Moscow in October "to protect its own interests." They note that the competition for bilateral agreements may create difficulties in the next few years for the development of a common Community commercial policy toward Eastern Europe. As one official points out, however, East-West trade will still be inhibited by the difficulty of finding markets for Eastern products in Western Europe.

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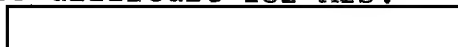
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India: Prime Minister Gandhi has again demonstrated her ability to secure support when needed from non-Congress groups in parliament.

On 2 September, she was able to obtain the required two-thirds majority in the lower house for a bill divesting India's former princely rulers of their constitutionally guaranteed privileges and monetary subsidies. She had threatened to dissolve parliament and call new elections if she lost. To become law, the bill must still be passed by the upper house but the measure has popular appeal and is expected to be approved within a few days.

Mrs. Gandhi's ruling Congress Party, although it has only a minority in both houses of parliament, was in little real danger of being brought down during the current parliamentary session, which is scheduled to recess this month. She had been finding it increasingly difficult, however, to keep her diverse collection of non-Congress supporters with her. The issue of abolishing the princes' privileges gave her a good opportunity to reinforce her image as the champion of economic and social justice. Moreover, it tended to strengthen her position by bringing in to her camp politicians who wished to identify themselves with "progressive" goals while tarring with a "reactionary" brush those who refused to back her.

Mrs. Gandhi is likely to get an indication of the success of this "polarization" strategy on 17 September when local elections are held in the southwestern state of Kerala, where she intends to campaign actively. Leaders of the other political parties, however, will resist having their identities submerged beneath Mrs. Gandhi's popularity. With the approach of national elections, which must take place by February 1972, these leaders probably will try harder to project an independent image. Forthcoming parliamentary sessions, therefore, are likely to be acrimonious and even more difficult for Mrs. Gandhi's minority government.



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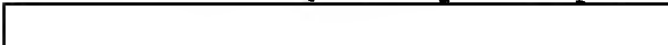
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Ceylon: A trade delegation is scheduled to visit several Communist countries in a quest for increased trade and aid.

In Peking, the delegation is expected to wrap up an agreement for a long-term, interest-free loan to finance the purchase of 100,000 tons of rice. Ceylon's rice imports will rise substantially as the new Bandaranaike government begins this month to implement a campaign pledge to double the weekly rice ration. Under a barter agreement concluded in late 1969, Colombo already is importing 200,000 tons of Chinese rice annually.

At the next stop in North Korea, the group reportedly will seek to exchange Ceylonese rubber and coconut for iron, steel, and chemicals. At present, the two countries have no trade agreement. Recent unspecified Korean aid offers also will be discussed.

In addition, the delegation will seek a liberal short-term credit to finance commodity purchases in the USSR. Ceylon intends to request a hard currency loan. Moscow undoubtedly will refuse this sort of assistance but probably will provide some credits.



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NOTES

Cambodia: Government forces reportedly have reoccupied the town of Srang, southwest of Phnom Penh, after five days of fighting. They encountered only light resistance, as the main body of Communist troops apparently retreated before their arrival. There is no new information on the situation at Tram Khnar, east of Srang, which has been under heavy enemy pressure. A government sweep in eastern Kampot Province, where large numbers of enemy troops reportedly are operating, netted ten prisoners. [REDACTED]

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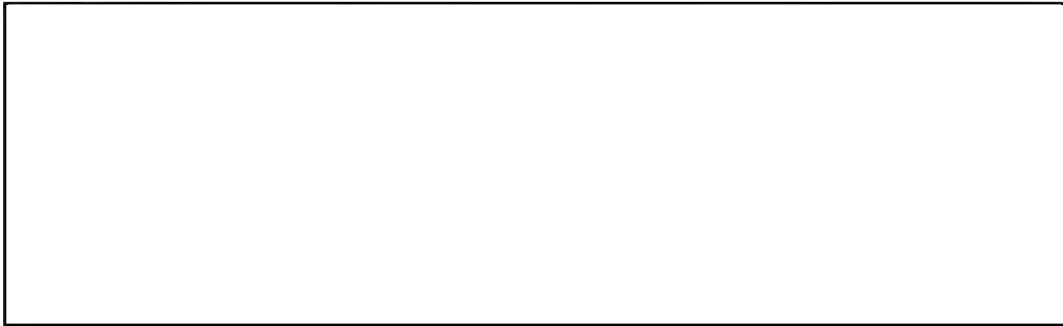
USSR-Indonesia: Moscow agreed "in principle" to consider extending new economic aid during recent negotiations in which Indonesia's approximately \$800 million debt to the USSR was rescheduled. A Soviet mission will travel to Djakarta next month, according to an Indonesian press release. They will explore resumption of assistance to complete economic projects--including a steel mill, a fertilizer factory, and an atomic energy reactor--suspended following the Indonesian coup of 1965, and to consider other economic aid. [REDACTED]

* * * *

Chile: Marxist presidential candidate Salvador Allende has set the stage for violence after the election today. Allende told a rally of more than 200,000 people on 2 September that although he was confident that the armed forces would respect his victory, he was "reserving the right on the evening of 4 September to call the people to defend their legitimate majority." The Communist and Socialist parties will have members standing by for possible demonstrations when the polls close at 4:00 this afternoon. Some extremist Socialists and other terrorists reportedly plan to unleash a campaign of violence and provocation in the event Allende is defeated. [REDACTED]

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Ivory Coast: The cornerstone of a \$2-billion "African Riviera" development in the Ivory Coast will be laid on 8 September by President Houphouet-Boigny. The complex will include light industry, hotels, casinos, and housing for 120,000 people and is expected to be built over a 15-year period. Internationally known financiers, including the Rothschilds, Swiss and German bankers, Israeli officials, and American businessmen will attend. Financing reportedly is in sight for the \$50-million first phase of the project, which is one of the most ambitious ever undertaken on the African continent. [REDACTED]

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